



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:32 a.m., January 23, 2001. The following members were present:

Chairman Jody B. Olson
Dennis L. Johnson
Susan K. Simmons
Pamela I. Ahrens

Trustee J. Kirk Sullivan was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Financial Officer James Monroe, Medical Advisors B. Strouth, John Mather, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Richelle Sugiyama	Dorn, Helliesen & Cottle
Ted Kunz	Dorn, Helliesen & Cottle
Drew Black	D.B. Fitzpatrick & Co
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Robert Schmidt	Milliman & Robertson, Inc.
Charlie Brown	Retired Teachers Association of Idaho
Dick Martin	IPEA
Doug Beldon	Watson Wyatt
Rhonda Yadon	PERSI
Judy Aitken	PERSI
Carol Boylan	PERSI

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. By motion duly made by Trustee Johnson, seconded by Trustee Ahrens and unanimously approved, the Board went into executive session at 8:33 a.m.

After discussion of each disability application, the Board resumed the regular session at 8:39 a.m. By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the

Board unanimously approved the disability applications of Steve Bennett, Judith Easter, Daniel Parrott, Robert Schneider, Jeffrey Smith, James Soden and Harold Tappen with no review; and Mary Lou Jolley with a review in one year.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Johnson, the Board unanimously approved the minutes of the December 19, 2000 regular meeting of the Retirement Board.

PORTFOLIO

Portfolio Report: Doug Dorn of Dorn, Hellieson and Cottle (DHC) was unable to be present because of a family emergency. DHC Senior Associate Richelle Sugiyama and Mr. Maynard reviewed the performance for the period ending December 31, 2000. For the fourth quarter, the Total U.S. Equity portion returned a negative 5.7% and the Total Global Equity portion returned a negative 4.6%; the Private Equity portfolio portion returned negative 4.0%; the Real Estate portion returned 3.3%; The Total Equity portion, including the international hedged positions, returned a negative 5.0%; the Total Fixed Income portion returned 4.1%. The Fourth Quarter Total Fund return was reported as a negative 2.3%. The asset allocation has been rebalanced to the target.

Ms. Sugiyama provided handouts as she discussed the DC Plan Manager Search Update by Mercer. Mercer's role has been expanded to include looking at all outside managers for each of the options. Their recommendation to the Board in February will include outside managers for Money Market/Stable Value, Large Capitalization Equity, Small Capitalization Equity, Mid Capitalization Equity, International (EAFE) Equity, Total Return Bond Fund (Lehman Aggregate benchmark), Total Stock Market Index Fund, Lehman Aggregate Index Fund, an International (EAFE) Index Fund as well as the PERSI Unitized Portfolio for the default fund. Board members asked that an S&P 500 Index Fund also be included. PERSI has asked Mercer to include VALIC, TIAA Cref, Nationwide and Mellon as they analyze managers in this selection process. Discussing the issue of whether to use PERSI managers or outside managers for these funds, Mr. Maynard said if we find that our members move substantial funds into these external investment options, we might want to use PERSI managed funds to save fees. However, until we determine investment patterns, we do not know if offering them would provide sufficient fee savings over outside management. Chairman Olson asked further about the investment manager selection process. Mr. Maynard said Mercer will provide a list and an explanation of their recommendations. If more than one manager choice is presented, Mr. Winkle said each would be ranked with criteria provided. Chairman Olson noted that the Board has traditionally been reluctant to be involved in direct manager selection and asked that a proper amount of due diligence and process be followed before the recommendation to the Board.

Monthly Portfolio Update Mr. Maynard reviewed his Investment Report dated January 22, 2001, which showed a total fund return of negative 1.6% for the fiscal year-to-date and a month-to-date return of 0.6%. Commenting on the report, the CIO said the uncertainty continues, with earnings concerns and some signs of more serious economic slowdowns all combining to pressure world equity markets. There is a general consensus that the Fed will continue to lower interest rates over the next year. The total fund and each of the accounts are performing better than expected given the current market conditions. Growth oriented managers are having difficult times, both absolutely and some against their benchmarks (e.g., Columbus Circle and Barings). This environment is likely to continue until there are some clear signs of

bottoming (or a turnaround) in the economic outlook. A poor first quarter appears to be discounted in the current market prices. He told the Board that markets like these are a good test of our manager choices and allocations. Should these volatile, sideways markets continue for another few months, we will at least benefit from seeing how our portfolio performs in such market difficulties. It provides excellent data for Mr. Maynard as he structures the portfolio to withstand market changes. He said our active managers collectively are beating their benchmarks and are responsible for our investment gain, adding value over time. During the past two calendar years, the equity and fixed income markets have returned only 5% annually, while PERSI has gained 9.2% annually. Two thirds of the out performance was due to manager out performance, and the remainder was due to internal decisions, such as rebalancing, the move into TIPS and the addition of the REIT portfolio. REITS returned 30% last year and the TIPS allocation also became our best performing bond portion. Mr. Maynard reviewed individual manager performance and told the Board that as we fund the Gain Sharing accounts, Financial Officer Jim Monroe will be taking funds proportionately to maintain our strategic allocation biases. Mr. Maynard discussed the power shortage in California and said IdaWest will be accepting delayed payment for electricity from PG&E; because of IdaWest's \$900,000 reserve, they expect to be able to handle it. Columbus Circle will be closely monitored because of their recent personnel change.

Other Investment Business: The Chairman opened the floor to comments from managers who were attending the meeting. There was some discussion of the slowing economy with expectations that with interest rates coming down, the economy should accelerate--but perhaps not until 2002.

FISCAL

Fiscal Update: Financial Officer James Monroe told the Board that the Annual Report is at the printers; copies will be distributed to the Board as soon as they are available.

Expense Reports: Mr. Monroe reviewed the Out of State Travel Report for the second quarter, and the Portfolio and Administrative Expense Reports for the month of December 2000. He also distributed an accounting of the Galena Program Budget Status which the Board had requested. In addition, he provided a copy of the Governor's Budget Recommendation for FY 2002 and discussed line items with the Board.

EXECUTIVE DIRECTOR

Discussion and Adoption of the 401(k) Plan Document: Deputy Attorney General Brad Goodsell provided copies of a memo dated January 22, 2001 with four revisions to the PERSI 401(k) Plan Document he had previously provided to the Board. He said the plan document needs to be adopted so that distributions from gain sharing accounts (in the event of termination, death or retirement) can be accomplished. He said a "prototype" document was not appropriate for this non-ERISA plan, so the plan will be submitted to the IRS for a letter of determination. There was further discussion about the technicalities of how the Gain Sharing plan works; the active member gain sharing dollars actually remain as a component of the DB plan, under section 414(k) of the Internal Revenue Code, with any employer or member contributions going into a 401(k). The member directs investment of both of these portions in a transparent structure. Trustee Ahrens asked if our education program will explain this to members. Mr. Winkle said that the structure will be transparent to member; the member will receive a statement showing all the holdings in the "Choice Plan." This includes the gain sharing dollars, and on the same statement, any employer or member contributions will also be shown. An

account total will show the combined value. Mr. Goodsell and Mr. Winkle clarified that the PERSI 401(k) will not preclude employers from offering 457 or 403(b) accounts. Mr. Winkle complimented Mr. Goodsell on the limit testing spreadsheet he has designed for checking how contributions to various types of retirement plans affect limits to other plans. Mr. Goodsell told the Board that as we continue to develop and add options, it is possible that the Board will see amendments to the plan brought for their approval. While staff has attempted to anticipate future needs and include language for those in the plan, periodic updates may be necessary and that is normal. Trustee Johnson moved to adopt the proposed PERSI 401(k) Plan as revised in accordance in Mr. Goodsell's January 22, 2001 memo. The motion was seconded by Trustee Ahrens and passed unanimously.

Status Update: The Board had previously received the monthly status memo, which summarized the projects in which PERSI is involved. Mr. Winkle told the Board that on February 5 PERSI's bills will be heard by the House Human Resource Committee. Our budget hearing before JFAC is scheduled from 10:-10:30 on February 6. Trustee Johnson's confirmation hearing will be February 8 at 1:30.

The Galena system is handling the payroll needs and printing separation, lump sum and death benefit payments. Doug Beldon of Watson Wyatt has been on site and is assisting at this critical time, helping resolve user and system problems. The transmittal system is in the user testing phase; staff is seeing the "light at the end of the tunnel" as we have major parts of the Galena program up and running. Gain sharing retiree payments have been distributed. The active member record keeping process is ready and final amounts will be sent to Mellon on January 29 for deposit into individual accounts on February 1. Letters with pin numbers, web and phone links and account balances will be sent from Mellon the first two weeks of February. We have a lot of work ahead yet with employers as they modify their systems to accommodate voluntary contributions and electronic transmittal of data to us. Our educational vendor, ETI, is transferring an employee to Boise to provide a close link as we begin the more than 600 seminars around Idaho for our active members.

Mr. Winkle has presented gain sharing information to several constituent groups during the past weeks. He will address the Idaho Association of Counties on February 1 and solicit their support of the educational seminars for their employees. He also noted that we are in the process of setting our next four-year fee agreement with our actuary, Milliman & Robertson in their ongoing contract. They are experiencing salary pressure as they employ those from the math, science and computer fields; therefore the costs for actuarial services will increase. We are receiving calls from retirees thanking us for the 13th check. Former Executive Director Tommy Terrell called and complimented the Board for their management and the gain sharing program. Mr. Terrell also advised us of the death of Milford Merrill who had served as Deputy Director during Mr. Terrell's tenure.

In response to a question from Trustee Ahrens, Mr. Winkle said we have received many questions about Governor Kempthorne's budget message regarding school district PERSI employer credits. It is our understanding that the Governor was recommending that each school district use the funds to address life safety issues in their particular district. Each school district has a separate credit with PERSI to be used during the coming months; there is no pooled amount for school districts. PERSI cannot issue refunds from the trust to the Department of Education or any employer; the credits are an accounting process. The Joint Finance and Appropriation Committee, in the budget setting process may join with the Governor in this recommendation, or may provide a different direction to the districts.

New Employer: By motion duly made by Trustee Ahren seconded by Trustee Simmons and unanimously approved, the Board welcomed the Payette County Rodent Control District as a new PERSI employer with an effective entry date of February 1, 2001.

Adjournment: On behalf of the Public Employee Retirement Coalition (PERC), Charlie Brown told the Board his group appreciates Mr. Winkle and PERSI staff for their work making it easy for members to understand the gain sharing and 401(k) plan. Mr. Winkle has met with interested parties and made presentations to many groups, including new legislators, which has been a great assistance. There being no further business to conduct, by motion duly made by Trustee Ahrens, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 10:15 a.m.

FUTURE BOARD MEETINGS

Tuesday, February 27, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, March 20, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, April 24, 2001, 8:30 a.m., Boise - PERSI office

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director